

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

DUAL MANAGEMENT OF COMMERCIALLY AVAILABLE ITEMS - DEFENSE LOGISTICS AGENCY ELECTRONIC CATALOG PILOT PROGRAM

Report No. 97-205

August 15, 1997

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Acronyms

DLA
E-CAT
GSA

Defense Logistics Agency
Electronic Catalog
General Services Administration



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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August 15, 1997

**MEMORANDUM FOR THE DEPUTY UNDER SECRETARY OF DEFENSE
(LOGISTICS)
DIRECTOR, DEFENSE LOGISTICS AGENCY**

SUBJECT: Audit Report on Dual Management of Commercially Available Items -
Defense Logistics Agency Electronic Catalog Pilot Program
(Report No. 97-205)

We are providing this report for your review and comment. This report is the first in a series of reports regarding dual management of commercially available items. The audit was requested by the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management). Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Defense Logistics Agency provide additional comments on Recommendations 1. and 2. by October 15, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Tilghman A. Schraden, Audit Program Director, at (703) 604-9186 (DSN 664-9186) (tschraden@dodig.osd.mil) or Mr. Terrance P. Wing, Audit Project Manager, at (215) 737-3883 (DSN 444-3883) (twing@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. 97-205
(Project No. 6LD-5044)

August 15, 1997

Dual Management of Commercially Available Items - Defense Logistics Agency Electronic Catalog Pilot Program

Executive Summary

Introduction. The audit was requested by the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management). This report is the first in a series of reports on dual management of commercially available items. The program, one of several Defense Logistics Agency (DLA) initiatives to expand sales of commercial items, involves developing an electronic catalog from which customers may browse, select, and order commercially available items. The DLA program will be tested in phases, with four customers and seven vendors participating. Initial testing of the electronic catalog, one customer and one vendor, began on April 15, 1997. If successful, the catalog is planned to be rapidly expanded into a major buying tool for DLA customers. The planned completion date for the pilot program is September 1997.

Audit Objectives. The audit objectives were to determine the extent of products available through non-Defense Federal organizations for which DoD also operates central procurement programs and to evaluate whether the DoD programs are providing services without added benefit to DoD. The objective of this report was to evaluate the electronic catalog to determine the extent of commercially available items in the pilot program that were also available from the General Services Administration. Subsequent reports will determine the extent of specific commodities available through non-Defense Federal organizations for which DoD also operates centralized procurement programs. We also reviewed the adequacy of management control programs as they applied to the stated objectives.

Audit Results. We commend DLA for starting an electronic catalog pilot program to reduce reliance on DoD inventories and increase the use of commercial distribution systems. However, portions of the program duplicated General Services Administration supply programs, particularly the Federal supply schedule and Advantage programs. If the electronic catalog pilot program proceeds as planned, there is no assurance DLA resources will provide value (cost economies and operational efficiencies) to either DoD or the DLA role as a combat support agency. Additionally, customers ordering items through the electronic catalog could pay higher prices than if the same items were ordered through the General Services Administration.

The management controls could be improved because we identified a material weakness in the process used to select commercially available items for the electronic catalog program (see Appendix A).

Implementing the recommendations should reduce the duplication in procuring commercially available items and result in potential monetary benefits. However, we could not quantify the potential monetary benefits because they are dependent on future review results and associated management decisions. See Part I for a discussion of the audit results.

Summary of Recommendations. We recommend that duplication between the electronic catalog and General Services Administration supply programs be eliminated. We also recommend that management controls be established to prevent duplication of DLA commercial item procurement initiatives with centralized procurement programs of other Government organizations.

Management Comments. The Principal Deputy Director, DLA, partially concurred with the finding and the recommendations, stating that the electronic catalog is being developed as a pilot system, and should be allowed to become fully operational before drawing conclusions on its value. To get vendor participation, DLA chose to use the vendors' standard catalogs, stating that at this point of development and operation of the catalog it is not prudent to expend time and resources to screen out possible items that may be managed by the General Services Administration. DLA stated that some electronic catalog vendors have agreements with the General Services Administration, but the exact number of items is difficult to determine; and relatively few vendor items have potential overlap with the General Services Administration. DLA also stated that, after the electronic catalog has matured for 12 to 18 months and sufficient performance data have been collected, it could include the appropriate language in future solicitations and contracts to exclude those items or classes of items that can be identified as duplicate in the General Services Administration supply programs and not predominantly military. DLA will address this issue as a vital management control objective in FY 1998. See Part I for a complete discussion of management comments and Part III for the complete text of management comments.

Audit Response. Comments from the DLA are partially responsive. We agree that the catalog needs time to mature before evaluating its value. However, nonmilitary items that are available through General Services Administration should be immediately eliminated from the catalog before additional vendors and items are added, not in 12 to 18 months. In an era of DoD downsizing, DLA resources should be directed toward procuring essential weapon system items that are in support of military operations, and not duplicate General Services Administration supply programs for types of items, such as office supplies and tools, that are not predominantly military. The DLA comments did not specifically discuss the establishment of management controls to prevent duplication of other DLA procurement initiatives, such as its food service equipment initiative, that involve commercial items that are not predominantly military with centralized procurement programs of other Government organizations. We request that DLA reconsider its position and provide additional comments on the final report by October 15, 1997.

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Part I - Audit Results

Audit Results

Audit Background

The audit was requested by the Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management). This report is the first in a series of reports on dual management of commercially available items.

Establishment of the Electronic-Catalog. The Defense Logistics Agency (DLA) established an electronic catalog (E-CAT) pilot program. The pilot program involves developing an E-CAT of commercially available common-use items such as cleaning supplies and office equipment and products. The program will be tested in phases, with four customers (Defense Distribution Region East, New Cumberland, Pennsylvania; Fleet Industrial Supply Center, Norfolk, Virginia; Walter Reed Army Hospital, Washington, DC; and Wright Patterson Air Force Base, Dayton, Ohio) and seven vendors participating. Initial testing of the E-CAT, with one customer, Fleet Industrial Supply Center, and one vendor, Rayco Supply, began on April 15, 1997, with 3,000 items in the E-CAT. The planned completion date for the pilot program is September 1997. If successful, E-CAT is planned to be expanded to an estimated 2.5 million items for use as a major buying tool for DLA customers.

Role of DLA. The DLA is a combat support agency responsible for worldwide logistics support, including procuring; stocking; and issuing consumable items throughout DoD. The primary focus of DLA is to support military operations in peace and in war, and to provide relief efforts during times of national emergency. As of March 1997, DLA managed approximately 4 million national stock numbers, of which about 1.5 million were coded as essential to the operation of Military Department weapons systems.

Role of the General Services Administration. The General Services Administration (GSA) was established in 1949 to supply personal property to Government organizations. The GSA operates a worldwide supply system to contract for and distribute personal property and services to Federal agencies. GSA provides items to its customers through several supply programs: customer supply centers, federal supply schedules, governmentwide service contracts, special orders, and stock (see Appendix B). GSA manages approximately 135,000 national stock numbers, and has contracts with over 5,000 vendors for direct delivery of commercial items to customers.

The GSA Advantage program became operational in October 1995. Advantage is an on-line shopping service that is being developed incrementally. When completed in September 1997, it will bring together products in all GSA supply programs, along with their descriptions; delivery options; and prices to provide a simplified method of ordering. Advantage allows customers to use the Internet to browse, perform keyword searches, and place an order for products. As of December 1996, Advantage contained approximately 400,000 items, and when completed will contain approximately 4 million items.

DoD and GSA Supply Management Relationship. The DoD and the GSA entered into an agreement in 1971 to eliminate avoidable duplication and overlap between their respective supply systems and those of other Federal agencies. The agreement was also to provide responsive, effective, and economical integrated materiel management to all Government agencies for commonly used commodities. With few exceptions, the agreement assigns to GSA Federal supply classes that are commonly used by Federal agencies, that are commercially available on the civilian economy, and that are not predominantly of a military nature. The agreement assigns to DLA Federal supply classes that are commonly used in military operations or weapons systems support, irrespective of their use by civil agencies.

DoD Policy on GSA Supply Services. On March 6, 1997, the Director, Defense Procurement, issued a memorandum, "General Services Administration Federal Supply Schedules as Preferred Sources of Supply," that established DoD policy on using GSA services. The memorandum urged DoD organizations to take full advantage of GSA Federal supply schedule contracts, if needed services and supplies are covered by the contracts. The Director stated that recent innovative changes mirroring commercial practices, to include use of the Internet, have made GSA schedules even more efficient to use. Additionally, use of schedule contracts meets DoD goals to simplify the acquisition process.

Audit Objectives

The audit objectives were to determine the extent of products available through non-Defense Federal organizations for which DoD also operates central procurement programs and to evaluate whether the DoD programs are providing services without added benefit to DoD. The specific objective of this report was to evaluate the E-CAT to determine the extent of commercially available items in the pilot program that were also available from GSA. We also reviewed the adequacy of the management control programs as they applied to the stated objectives. We were unable to determine the extent of products available through non-Defense Federal organizations, for which DoD also operates central procurement programs, because the number and value of those types of procurements are not centrally reported. See Appendix A for a discussion of the scope and methodology, our review of the management control program, and the summary of prior audit coverage.

Electronic Catalog Pilot Program

Portions of the DLA E-CAT pilot program duplicated GSA supply programs, particularly the Federal supply schedule and Advantage programs. Vendors' proposals to participate in E-CAT included commercially available types of items such as cleaning supplies, office equipment and supplies, packaging material and supplies, storage cabinets and accessories, and tools that are not predominantly military and that are available through GSA. The duplication occurred because DLA efforts to increase sales through E-CAT did not include management controls to preclude commercial items from E-CAT that were not predominantly military and that were available through GSA. If the pilot program proceeds as planned, there is no assurance DLA resources will provide value (cost economies and operational efficiencies) to either DoD or the DLA role as a combat support agency. Additionally, items procured through E-CAT could cost customers more than if the same items were procured through GSA. Finally, purchases would not be consolidated under a single source of supply for potential price discounts.

Overview of E-CAT

The Federal Acquisition and Streamlining Act of 1994 simplified and streamlined the Federal Government acquisition system by requiring the Government to transition from a paper burdened acquisition system to a more efficient process using electronic commerce and electronic data interchange technologies. In April 1996, the Defense Supply Center Richmond sent a solicitation to 32 vendors to determine their interest in participating in an E-CAT pilot program. Some objectives of the E-CAT are to:

- o increase DLA sales.
- o validate the concept of an E-CAT as a tool for procurement of part numbered items, in lieu of national stock numbers.
- o evaluate end user satisfaction and acceptance of an interactive purchasing tool.
- o identify the issues relating to the operation of an E-CAT in the context of a framework of financial legislation, policy, and systems.
- o provide lessons learned for the possible expansion of the E-CAT program.

Through the E-CAT, customers will be provided an on-line capability to browse and order items that can be shipped directly from the supplier to the customer. Potential benefits of the program include lower item prices, reduced logistics response time, elimination of second destination transportation charges, increased visibility for supplier products, and the ability to redirect resources of skilled work force personnel to more complex procurement tasks. To assist in developing the E-CAT, on September 26, 1995, DLA entered into a contract, valued at \$975,000, with ManTech International Corporation. As of March 1997, the contract was valued at approximately \$1,689,000.

E-CAT Vendors and the Pilot Program

Portions of the DLA E-CAT pilot program duplicated and overlapped GSA supply programs, particularly the Federal Supply Schedule and Advantage programs. As previously discussed, when Advantage is fully implemented, customers using the Internet will have access to all GSA supply programs, including blanket purchase agreements and Federal supply schedules. Vendors' proposals to DLA for participation in E-CAT included commercially available types of items, such as cleaning supplies; office equipment and products; packaging material and supplies; storage cabinets and accessories; and tools that are not predominantly military and that are available through GSA (see table). Of the seven vendors in the E-CAT pilot program, five vendors, or if applicable, companies supplying items to the vendors, had contracts with GSA for the same or similar types of items. For the 2 vendors, and companies supplying the vendors, that did not have a contract with GSA, GSA supply programs provided the same or similar types of items from other sources of supply.

Vendors and Types of Items in E-CAT

<u>Vendor</u>	<u>Type</u>	<u>Items</u>	<u>No. of Items in Proposal</u> ¹
Ansley Business Materials	Distributor	Office equipment and products	2,700
B&B Hose and Rubber Company	Distributor	Valves and couplings	3,000
Downey, Incorporated	Distributor	Distribution and packaging supplies	10,000
Rayco Supply	Distributor	Welding equipment and accessories	10,000
The Stanley Works	Manufacturer	Storage cabinets and tools	23,500
W.W. Grainger	Distributor	Maintenance and repair equipment	60,000
3M Company	Manufacturer	Various ²	40,000

¹Numbers provided by Defense Supply Center Richmond, Virginia.

²Includes abrasives, chemicals, electrical products, office supplies, and traffic control equipment.

Ansley Business Materials. Ansley Business Materials submitted a proposal to provide office equipment and products through E-CAT. Ansley stated that about 300 of the items it offered were also available through a GSA blanket purchase agreement. Additionally, GSA procurement data showed that Ansley had three contracts with GSA. The contracts were for automatic data processing and telecommunication-media supplies, office machines and supplies, and paper supplies. The Ansley proposal also included a catalog of brand name office equipment and products from 74 companies. GSA procurement data showed that 24 of the 74 companies also had contracts with GSA with items available on the Federal supply schedules.

B&B Hose and Rubber Company. B&B Hose and Rubber Company submitted a proposal for E-CAT to provide items from the Dixon Valve and Coupling Company. The Dixon Valve and Coupling Company catalog included items such as clamps, couplings, garden hoses and accessories, pipe adapters, rainwear, and valves. Neither B&B Hose nor Dixon Valve and Coupling Company had a contract with GSA. However, GSA did have contracts with other vendors to supply garden hoses and rainwear.

Downey, Incorporated. In its proposal for E-CAT, Downey, Incorporated provided a catalog primarily of material handling and storage equipment and packaging equipment, materials and supplies. Downey did not have a contract with GSA; however, GSA had two Federal supply schedules (Shipping, Packaging and Packing Supplies with items available from 25 vendors, and Material Handling Equipment, with items available from 57 vendors) that contained the same items or items similar to the types of items that Downey offered.

Rayco Supply. Rayco Supply provided a proposal for E-CAT containing catalogs from 10 companies. The catalogs included items such as abrasives, safety eyewear, shelving, and welding equipment and gloves. Rayco did not have a contract with GSA; however, 2 of the 10 companies in its proposal had contracts with GSA with items available on the Federal supply schedules.

The Stanley Works. The Stanley Works submitted a proposal for E-CAT to supply 16 types of items. The types of items were primarily storage cabinets and tools. Stanley had a contract with GSA under the Federal supply schedule for industrial furniture, workbenches, worktables and high density storage cabinets. In addition, Stanley participated in the GSA Standardization and Control of Industrial-Quality Tools Program. The program was established to maintain standardization and control of tool inventories in areas such as aircraft maintenance, aerospace applications, and support of critical weapons systems and includes over 10,000 tools sold by nationally known companies.

W. W. Grainger. W. W. Grainger submitted a proposal for E-CAT to supply maintenance, repair, and operating supplies. Examples of the types of items that the vendor provides are fans, lighting supplies, motors, safety and security equipment, and tools. W. W. Grainger had one contract with GSA to supply brand name tools through the GSA special order program.

3M Company. The 3M Company submitted a proposal for E-CAT to supply 13 types of items. For five types of items, the proposal referenced seven contracts on Federal supply schedules that 3M had with GSA to provide the same items. The contracts were for items such as cleaning supplies, floor mats, office supplies, and vacuum cleaners and filters.

Management Controls for E-CAT

Vendors and Item Selection for E-CAT. Portions of the DLA E-CAT duplicated GSA supply programs because DLA efforts to increase sales through E-CAT did not include management controls to preclude commercial items from E-CAT that were not predominantly military and that were available through GSA. A primary objective of DLA for the E-CAT was to increase sales, including capturing those sales lost to local purchases. In selecting the types of items for the E-CAT pilot program, DLA disregarded criteria established in the 1971 agreement to eliminate duplication between the DLA and GSA supply systems. In choosing the items for the E-CAT pilot program, DLA should have been more selective to ensure that the items included were consistent with the 1971 agreement.

Management Controls for Other DLA Initiatives. The E-CAT is one of several DLA initiatives established to reduce reliance on DoD inventories through the use of direct vendor delivery and to increase the use of commercial distribution systems. Some of the other initiatives for sales of commercial items include food service equipment (freezers, ice cream cabinets, knives, spoons and toasters); the Commercial Battery Program (commercial vehicle batteries); the Ingersoll Rand Power Tool Corporate Contract (industrial power tools, hoists, starters, and winches); and the Maintenance, Repair, and Operations Prime Vendor Program (lumber, plumbing, electrical, heating and air conditioning, and building supplies). Although, we did not evaluate the other initiatives, DLA management controls should include procedures for evaluating those other initiatives to ensure that the 1971 DoD and GSA agreement criteria is applied to avoid the same duplication that exists in the E-CAT.

Value Added

Having two Government organizations operating centralized programs that compete with each other in procuring, in some cases from the same vendor, and selling the same types of common use commercial items does not contribute to the economy and efficiency of the Government. Most of the objectives of the E-CAT program are commendable, but the types of items that DLA selected for the E-CAT pilot program did not add value to either DoD or the DLA role as a combat support agency. The types of items are predominantly not military and

available from GSA. Expending resources to administer a program that duplicates GSA supply programs is not cost-effective and does not contribute to the operational readiness of weapon systems.

E-CAT Pricing

Items procured through E-CAT could cost customers more than if the same items were procured through GSA. In addition, purchases would not be consolidated under a single source of supply for potential price discounts. Of the seven vendors in the pilot program, three offered the same prices through E-CAT as was offered to GSA. One vendor stated in its E-CAT proposal that it "offers the prices shown under the same terms and conditions as stated in the [GSA] schedules." While the prices quoted in the E-CAT proposals were the same as the GSA Federal supply schedules, the cost to customers ordering through E-CAT would be higher because DLA plans to charge customers a 7.6 percent cost recovery rate to recoup costs incurred for the services it provides.

The E-CAT customers could also pay higher prices because the majority of E-CAT vendors were distributors, while GSA prices for the same items were from manufacturers. Distributor prices are generally higher than manufacturers' prices because distributors purchase items from the manufacturer and mark up prices for sales to customers.

For 39 items we evaluated, the E-CAT proposal prices were from 12 to 51 percent higher than the GSA prices. For example, an E-CAT vendor submitted a price of \$495.17 for a cutting and welding torch outfit (35 percent discount off the catalog price). GSA had a contract with the company supplying the item to the E-CAT vendor. The contract price available to GSA customers through the GSA contract was \$297.45, or \$197.72 (40 percent) less than the E-CAT proposal price. The example excludes the 7.6 percent DLA cost recovery rate that would be added.

Another benefit of eliminating the duplication between DLA and GSA is that the Government could consolidate requirements and generate larger orders from the vendors. Vendors have reduced order processing and administrative expenses for large quantity orders. Generally, the vendors will pass the savings to customers when large quantity orders are placed for a commodity. If the Government consolidated its purchases through a single source of supply, it would generally get a reduced price from vendors.

Summary

Most of the types of items included in the E-CAT were not predominantly military commercial items. Additionally, by including the commercial items in the E-CAT, DLA will compete with GSA in procuring the same items from the same vendors. DLA needs to evaluate all its initiatives to expand sales of commercial items to ensure that its resources are directed toward weapon system items that are in support of military operations and that the types of items included in the initiatives do not duplicate centralized procurement programs of other Government organizations.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Logistics Agency :

- 1. Eliminate the duplication of the electronic catalog with the General Services Administration supply programs for types of items that are not predominantly military.**

Management Comments. The Principal Deputy Director, DLA, partially concurred, stating that the E-CAT pilot program is in an initial operations mode, and should be allowed to become fully operational before conclusions are drawn on its value. DLA is developing E-CAT to provide superior overall performance (delivery, quality, price) to its military customers, and to change its normal business practices to move to a market based, competitive, electronic ordering system. To get vendor participation, DLA chose to use the vendors' standard catalogs, and believes that at this point of the development and operation of E-CAT it is not prudent to expend time and resources to screen out possible items that may be managed by the GSA. DLA stated that some E-CAT vendors have agreements with GSA, but the exact number of items is difficult to determine. Additionally, relatively few vendor items have potential overlap with GSA. DLA believes the focus should be on the bulk of E-CAT items that likely will be available only through DLA.

The Principal Deputy Director also stated that after E-CAT has matured for 12 to 18 months and DLA has collected sufficient data (types of items ordered, delivery timeframes, and prices paid), DLA should address the breadth of items in future contracts. DLA could include the appropriate language in future solicitations and contracts to exclude those items or classes of items that can be identified as duplicate in the GSA supply programs and not predominantly military. The burden to comply with the contract requirement to eliminate GSA type items from the E-CAT would be on the vendor and DLA would monitor the requirement.

The Principal Deputy Director further stated that DLA reserves the right to change its partial concurrence to this report to a nonconcurrence if statistics bear out its belief that competition to provide the warfighters' choice in items, deliveries, and price is indeed what best meets their requirements.

Audit Response. Comments from DLA are partially responsive. Providing superior overall performance to its military customers is a commendable goal. However, we believe that expending resources to duplicate GSA supply programs for classes of items such as office supplies and cleaning products does not add value to DoD operations. There was no evidence to support the DLA belief that it would have any significant advantage over GSA in the areas of delivery, price, and quality, especially when DLA and GSA contract with the same vendors. In those instances, there should be no comparable difference in delivery and quality of items because the same vendors would supply materiel directly to customers. As for superior prices, consolidating purchases should provide potential price breaks.

Although the exact number of items in E-CAT that overlap with GSA may be difficult to determine, there is still significant potential for overlap with GSA. Of the seven vendors in the E-CAT pilot program, five vendors (or companies, if applicable) supplying items to the vendors had contracts with GSA for the same or similar types of items. Our intent was not to identify exact duplication of items, but to show that E-CAT contained classes of nonmilitary items that are included in GSA supply programs. For specific items that are in E-CAT but not in GSA Federal supply schedules, we see no reason why GSA could not expand the supply schedule program to include those items.

We agree that the catalog needs time to mature before its value is evaluated. However, actions to exclude nonmilitary items that are available through GSA from the E-CAT should be taken immediately, before additional vendors and items are added to E-CAT, not in 12 to 18 months. As DLA noted, screening for duplicate items is expensive and time-consuming and in an era of DoD downsizing, DLA resources should be directed toward procuring essential weapon system items that are in support of military operations. Appropriate language needs to be included in future solicitations and contracts for E-CAT to exclude those items or types of items identified as not predominantly military and duplicated in GSA supply systems. We request that DLA reconsider its position and provide additional comments on the final report.

2. Establish management controls to prevent duplication of Defense Logistics Agency commercial item procurement initiatives involving types of items that are not predominantly military with centralized procurement programs of other Government organizations.

Management Comments. The Principal Deputy Director, DLA, partially concurred and stated that this issue will be added as a vital management control objective for FY 1998. In the interim, DLA will address this as a concern in its FY 1997 annual statement of assurance.

Audit Response. Comments from DLA are partially responsive. DLA did not specifically address the establishment of management controls to prevent duplication of other DLA procurement initiatives, such as its food service equipment catalog initiative, that involve commercial items that are not predominantly military with centralized procurement programs of other Government organizations. We request that DLA provide additional comments in response to this final report.

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Part II - Additional Information

Appendix A. Audit Process

Scope and Methodology

We evaluated proposals from the seven vendors responding to the April 1996 E-CAT solicitation from Defense Supply Center Richmond to determine whether the vendors or companies supplying the vendors had contracts with GSA. For each proposal, we reviewed each vendor's catalogs to determine the items to be included in E-CAT. In some cases, the catalogs identified items as being available through GSA. For items that were not identified as being available through GSA, we compared descriptions of the items to data in DoD Manual 4140.26M, "Defense Integrated Materiel Management Manual for Consumable Items," June 1995, to identify items that could possibly be procured through GSA. When items were identified as either procured or possibly procured by both DLA and GSA, we obtained supply data (integrated materiel manager, national stock number, technical characteristics, etc.) from the Federal Logistics Information System and from GSA vendor catalogs to determine whether DLA and GSA procured the same items and to compare catalog prices. The documentation reviewed covered the period from September 1995 through April 1997.

Computer-Processed Data. We did not use computer-processed data or statistical sampling procedures for this audit.

Audit Period and Standards. This economy and efficiency audit was made from August 1996 through April 1997. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and GSA. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed the adequacy of the DLA management controls to prevent duplication and overlap between the DLA E-CAT and GSA supply programs. We assessed the DLA self-evaluation of those controls.

Adequacy of Management Controls. We identified a material management control weakness for the DLA as defined by DoD Directive 5010.38. DLA management controls for developing E-CAT were not adequate to ensure that overlap and duplication did not exist between the DLA E-CAT pilot program and GSA supply programs. Recommendations in this report, if implemented, will correct the material weakness. We could not determine the amount of potential monetary benefits because it is dependent on future review results and associated management decisions. A copy of the report will be provided to the senior official responsible for management controls in DLA.

Adequacy of Management's Self-Evaluation. Officials at DLA Headquarters did not identify the E-CAT as an assessable unit and, therefore, did not identify the material management control weakness identified by the audit.

Summary of Prior Audits and Other Reviews

No previous coverage has been conducted on the DLA E-CAT pilot program.

Appendix B. GSA Supply Programs

GSA provides items to its customers through:

- o customer supply centers,
- o Federal supply schedule program,
- o Governmentwide service contracts,
- o special order program, and
- o stock program.

Customer Supply Centers. Customer supply centers are located throughout the United States and stock common office, administrative, and industrial supplies. Each center also has a catalog that provides item descriptions, national stock numbers, and unit prices for approximately 2,000 items.

Federal Supply Schedule Program. Under the Federal Supply Schedule program, GSA enters into contracts with commercial firms to provide supplies and services at stated prices for given periods. Customers place orders directly with schedule contractors, and deliveries are made directly to customers. The program provides customers with literally millions of state of the art, high quality commercial products at a volume discount price through direct delivery.

Governmentwide Service Contracts. The GSA solicits offers, evaluates proposals, and awards Governmentwide service contracts for organizations within the Federal Government. Examples of the types of services contracted for include airfare, car rental, debt collection, and package delivery.

Special Order Program. Items in the special order program are those that GSA does not stock. Customers submit requisitions to GSA for special order items and GSA either sends a purchase order to vendors, if the items are covered by existing contracts, or initiates a contract to have items shipped directly to the customers. Items included in the special order program include high demand items, such as furniture; brand name commercial items; low demand items; and non-national stock number items where local purchase is not practical.

Stock Program. The GSA stocks a wide variety of items in a nationwide network of distribution centers. Stock items are listed in the GSA supply catalog and can be ordered by submitting a requisition. Ordering can also be done via the GSA Advantage system, including the use of the Government credit card. Under the stock program, GSA arranges for certain requisitions to be shipped directly from the vendor to the customer when it is determined to be more economical.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Deputy Under Secretary of Defense (Logistics)
Assistant Deputy Under Secretary of Defense (Materiel and Distribution Management)
Deputy Under Secretary of Defense (Acquisition Reform)
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief of Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
 National Security and International Affairs Division
 Technical Information Center
Inspector General, General Services Administration

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
 Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
 Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Defense Logistics Agency Comments



**DEFENSE LOGISTICS AGENCY
HEADQUARTERS**
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO

DDAI

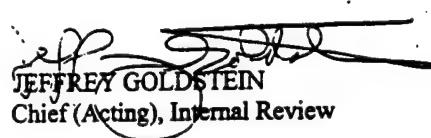
JUL 10 1997

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Dual Management of Commercially Available Items - Defense
Logistics Agency Electronic Catalog Pilot Program, 6LD-5044

Enclosed is our response to your request of 28 May 1997. Should you have any questions,
please contact Elaine Parker, 767-6264.

Encl


JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

cc:
MMBCA
MMLX

SUBJECT: Dual Management of Commercially Available Items - Defense Logistics Agency
Electronic Catalog Pilot Program, 6LD-5044

FINDING: Electronic Catalog Pilot Program. Portions of the DLA E-CAT pilot program duplicated and overlapped GSA supply programs, particularly the Federal supply schedule and Advantage programs. Vendors' proposals to participate in E-CAT included commercially available types of items such as cleaning supplies, office equipment and supplies, packaging material and supplies, storage cabinets and accessories, and tools that are not predominantly military and that are available through GSA. The duplication and overlapping occurred because DLA efforts to increase sales through E-CAT did not include management controls to preclude commercial items from E-CAT that were not predominantly military and that were available through GSA. If the pilot program proceeds as planned, there is no assurance DLA resources will provide value (cost economies and operational efficiencies) to either DoD or the DLA role as a combat support agency. Additionally, items procured through E-CAT could cost customers more than if the same items were procured through GSA. Finally, purchases would not be consolidated under a single source of supply for potential price discounts.

DLA COMMENTS: We partially concur with the DoDIG finding and recommendations with the following comments:

1. The Electronic Catalog (E-CAT) is being developed as a pilot system to provide superior overall performance (delivery, quality, and price) to our military customers. The initial operation of E-CAT is restricted to a limited number (four sites) of users, and a limited number (seven) of vendors. The total number of items included in the combined seven vendors' catalogs only total approximately 150,000 items. DLA is developing E-CAT to change our normal business practices significantly and move to a market based, competitive, electronic ordering system. This is a significant change in doing business, far from the methods used when the 1971 Agreement between DLA and GSA was put in place.
2. Initially, to get vendor participation we chose not to require unique requirements (tailored cataloging) when we negotiated our long-term contracts. Rather, we wanted their standard catalogs. Indeed, identifying and screening many non-NSN items would be expensive and time consuming. It should be noted that relatively few vendor items have potential overlap with GSA. For example, with Ansley the report cites 300 items (11%) also available via a GSA BPA. Although some other E-CAT vendors have agreements with GSA, the exact number of items is difficult to determine. The focus should be on the bulk of E-CAT items that will likely be available only through DLA.
3. The E-CAT is currently in an initial operations mode and in its infancy. The IG should allow E-CAT to become fully operational before drawing conclusions on its value. At this point, it is not close to being a mature or a comprehensive system with many customers and vendors participating and supporting it. While performance metrics for E-CAT have been established, we do not anticipate that actual performance data will be available until several months after the E-CAT is fully operational. As we gain information about E-CAT during the next 12-18 months, we can identify the types of items customers are ordering as well as delivery timeframes and

Defense Logistics Agency Comments

PAGE 2

SUBJECT: Dual Management of Commercially Available Items - Defense Logistics Agency
Electronic Catalog Pilot Program, 6LD-5044

prices paid. Note that vendors can adjust prices on a regular basis and we expect the built-in competition in E-CAT to make most of those adjustments downward.

4. At this point of development and operation, it is not prudent to expend time and resources to screen out possible items that may be managed by GSA. Items to be sold on the E-CAT are not assigned National Stock Numbers (for the most part) and are not classified in Federal Supply Classes. After the E-CAT has matured for 12-18 months, we should address the breadth of items in future contracts. After DLA has collected sufficient data and made the proper determination, we could include the appropriate language in the solicitation/contract to exclude those items or classes of items that can be identified as duplicate in GSA supply programs and not predominantly military, e.g., office supplies and cleaning fluids. The burden to comply with the contract requirement to eliminate the GSA-type items from the E-CAT would be on the vendors.

DLA would monitor vendors' catalog data periodically by randomly sampling items in the catalog to determine if the vendors are excluding those items from the E-CAT that are not predominantly military and that are available from GSA. The means for accomplishing the monitoring will be determined by DLA and identified at a later date. Moreover, DLA plans to have KPMG Peat Marwick update the E-CAT Preliminary Functional Economic Analysis (FEA). We invite the IG to review that when completed and look at E-CAT's overall efficiency. We believe only then can valid conclusions be reached about its value and efficiency.

5. DLA will add this issue as a vital Management Control Objective for FY 98. In the interim, we will address this in our FY 97 Annual Statement of Assurance as a "concern." We reserve the right to change our partial concurrence to this report to a nonconcur if statistics bear out our belief that competition to provide warfighters choice in items, deliveries, and price is indeed what best meets their requirements.

Internal Management Control Weakness: Partially Concur

ACTION OFFICER: Willis Drake, MMLX, 767-2651

REVIEW/APPROVAL: JEFFREY A. JONES, Executive Director, Logistics Management

COORDINATION: Elaine Parker, DDAI, 767-6264

DLA APPROVAL:

RAY E. McCoy
RAY E. McCoy
Major General, USA
Principal Deputy Director

Defense Logistics Agency Comments

SUBJECT: Dual Management of Commercially Available Items - Defense Logistics Agency Electronic Catalog Pilot Program, 6LD-5044

RECOMMENDATION 1: Recommend that the Director, Defense Logistics Agency eliminate the duplication of and the overlap of the electronic catalog with the General Services Administration supply programs for types of items that are not predominantly military.

DLA COMMENTS: See comments under FINDING.

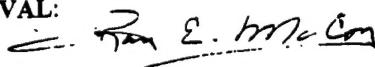
DISPOSITION: ONGOING ECD: 31 Dec 98

ACTION OFFICER: Willis Drake, MMLX, 767-2651

REVIEW/APPROVAL: JEFFREY A. JONES, Executive Director, Logistics Management

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DLA APPROVAL:



RAY E. MCCOY
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Defense Logistics Agency Comments

SUBJECT: Dual Management of Commercially Available Items - Defense Logistics Agency Electronic Catalog Pilot Program, 6LD-5044

RECOMMENDATION 2: Recommend that the Director, Defense Logistics Agency establish management controls to prevent duplication and overlap of Defense Logistics Agency commercial item procurement initiatives involving types of items that are not predominantly military with centralized procurement programs of other Government organizations.

DLA COMMENTS: See comments under FINDING.

DISPOSITION: ONGOING. ECD: 31 Dec 98

ACTION OFFICER: Willis Drake. MMLX, 767-2651

REVIEW/APPROVAL: JEFFREY A. JONES, Executive Director, Logistics Management

COORDINATION: Elaine Parker. DDAI, 767-6264

DLA APPROVAL:



RAY E. McCOY
Major General, USA
Principal Deputy Director

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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